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A COMPARISON OF CIVIL SERVICE RETIREMENT AND SOCIAL SECURITY

The current proposal to grant probational indefinite status to employees appointed from a register has important retirement implications. Employees affected quite naturally will ask: Do I stay under social security or do I go under civil service retirement - and where am I better off?

Under present regulations, the emergency-indefinite employee - whether or not appointed from a register - is subject to social security. He pays a tax of 1 1/2% on his wages up to $3,600 per year. This tax rate is scheduled to increase to 2% in 1954, to 2 1/2% in 1960, to 3% in 1965, and finally to 3 1/4% in 1970. His government employment is combined with any prior or subsequent employment under social security to determine eligibility for and amount of old-age and survivor benefits.

An employee subject to civil service retirement contributes 6% of his entire salary. This rate is 4 times the present social security tax rate, but is less than twice the ultimate rate. Moreover, it applies to all salary instead of only the first $3,600. There is no question but that the employee contributes more under civil service retirement. Now let's see if he gets his money's worth.

In the first place, the civil service contribution is an individual, guaranteed, savings fund. The employee or his survivors will receive, in the form of annuities, lump-sum payment, or a combination of these, <u>at least</u> as much as he has contributed, plus compound interest. Nobody loses; the worst you can do is break even.

On the contrary, the social security tax is just that - a tax. You never get it back. You may - or may not - get back benefits equal to it. Persons who shift to employment not covered by social security can lose every penny of taxes paid. Young women who, prior to marriage, work less than 10 years under social security acquire no old-age benefit rights unless they have subsequent covered employment.

Of course, this obvious advantage of a guaranteed return under civil service retirement isn't the whole story by any means. In the area of providing income when disability, death, or old-age terminates earning capacity, civil service retirement offers more to the long-service, career employee; social security is better for the older, short-service employee.

This situation results from a basic difference between the two systems. Under civil service, annuity benefits are directly proportional to length of service. The 30-year employee receives twice the annuity of the 15-year employee with an identical 5-year average salary, and the same is true for annuities to their widows. Under social security, however, length of employment does not affect the amount of benefit except for the reduction in average

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wage because of non-covered periods. For example, it is possible to qualify for social security benefits with as little as 6 quarters of coverage. The benefits are precisely as much as those to a person with the same average wage who paid taxes for 45 years.

For older employees who can qualify for old-age benefits in a relatively short time, social security is generally a better bargain. For a $3,600 employee retiring at age 65, the monthly benefit is $80. There is an additional benefit of $40 to the wife when she reaches age 65. Under civil service, the monthly annuity based on 5 years of service is $25; on 10 years, $51; and on 15 years, $76. However, the annuity begins at age 62 instead of 65. It is greater, of course, for higher salaries; on a $6,000 salary, the monthly amounts for 5, 10, and 15 years of service are $38, $75, and $113.

For the short-service, younger employee, the advantages of social security in respect to old-age benefits are much less than for older employees. Civil service retirement coverage of 5 years or more accords title to an annuity at age 62 (unless the employee elects a refund); the amount of this annuity is not reduced because of subsequent periods of non-civil service coverage. He can gain more than he loses by not having been under social security during his Federal service.

As an example, a 35 year old employee, with salary of $3,600, came under civil service retirement on January 1, 1951. After 15 years, he resigns and then works under social security until age 65. Beginning at age 62, his civil service annuity is $76 per month. At age 65, he is eligible for a social security benefit of $57.50. (His average wage for social security purposes, is $1,800 because he was covered only one-half the time from January 1, 1951). Had he been covered by social security the entire 30 years, the benefit would be $80. He loses $22.50 on social security, and gains $76 from civil service.

The advantages of civil service become apparent when longer service is considered. The 30-year employee whose salary averages $3,600 for any 5 consecutive years (not for a full working lifetime) receives a monthly annuity of $153; for service of 40 years, $203. On a $6,000 salary, the monthly amounts are $225 and $300 for 30 and 40 years, respectively. Moreover - and this is an important difference - these annuities can commence at age 60, or, with a reduction of 15%, at age 55. Social security offers a maximum of $80, beginning at age 65, or $120 to a couple when the wife reaches that age.

Turning now from old-age to disability retirement, we find no comparison. Civil service provides annuities on disability after 5 years of civilian service; social security has no disability provision. While it is quite true that the civil service annuity based on short service is far from munificent, it is much better than nothing. Furthermore, the great majority of disabilities occur at or beyond middle age, at a time when the career employee has sufficient service to provide a substantial annuity.

Over 25% of present civil service annuitants were retired because of disability, practically all at ages below 65. Under social security, an employee who loses his earning capacity because of disability can receive no benefits prior to age 65. He may then receive the old-age benefit, decreased because of the lower average wage resulting from his enforced period of unemployment; or he may receive nothing because the period of his disability prevented his meeting the coverage requirements for title to any benefits. Disability protection is an important, clear-cut advantage of civil service retirement over social security.

We've now looked at what the employee can expect for himself from the two systems. But there remains for consideration the question - What happens after death? A precise answer is impossible, because a number of unpredictable conditions determine the type and amount of benefits under both civil service retirement and social security.

For the single person, the advantages of civil service are predominant. Upon death before retirement, all contributions plus interest are payable in a lump-sum. Upon death after retirement, any balance of contributions and interest in excess of annuities received is payable in the same manner. Or the single employee who retires in good health may elect a reduced annuity, thus providing an annuity of one-half the reduced amount payable after his death to a person having an insurable interest in the employee.

Under social security, the only lump-sum payment upon the death of an insured single person is a maximum reimbursement of $240 for burial expenses. This is true regardless of the number of years taxes have been paid. Under certain conditions, monthly benefits may be payable to aged dependent parents, but as a general rule the single person who dies before qualifying for old-age benefits will have paid more in taxes than will be paid back in all types of benefits. No such loss is possible under civil service retirement, and single Federal employees are more than a negligible percentage.

However, married workers are in the majority, and it is in the area of family protection that social security has advantages under certain conditions. Only 6 quarters of coverage for a $3,600 married man may qualify his widow and 2 children for initial maximum monthly benefits of $150, in addition to a lump-sum death payment of $240. The benefits are no larger for longer periods of coverage. When the older child reaches age 18, monthly benefits decrease to $120, and disappear completely when the younger child reaches that age if, as is likely, the widow is then under age 65. However, she may be eligible for a monthly widow's benefit of as much as $60 beginning at age 65, if she has not remarried.

Under civil service retirement, no survivor annuities are payable on the basis of less than 5 years of civilian service. Because of the relation to length of service and lower childrens' annuities, civil service family benefits do not compare favorably in amount with those under social security for a widow and minor children, except at long periods of service. However, civil service has certain advantages. The annuity to the widow does not

stop when the youngest child reaches age 18, as it does under social security, but continues until her remarriage or death. Civil service annuities to children continue beyond age 18, unlike social security, if the child is incapable of self-support because of mental or physical disability.

If a married man dies leaving no minor children, the picture is considerably different. Under social security, the maximum monthly benefit to the widow is $60, and it does not commence until age 65. Under civil service, the widow's annuity begins at age 50, and thus may be payable for 15 years longer than the social security benefit. Service of 23 1/2 years by a $3,600 employee, or 16 years by a $6,000 employee, will produce a civil service widow's annuity rate equal to that of social security. Longer service, of course, provides a larger amount.

The number of widows who have qualified for civil service annuities under the age 50 provision is well over twice the number who qualified because the deceased employee also left minor children. This is quite natural; death before middle age is the exception rather than the rule. Thus while social security provides more for the young widow during the minority of her children, civil service retirement has advantages in the area where the majority of employee deaths occur.

Under both systems, the widow's benefit ceases on remarriage, or, if there are no children, is never paid if she remarried before reaching the age of 65 under social security or 50 under civil service. Under social security, the widow would receive only a lump-sum death payment which cannot exceed $240, far less than taxes her former husband would have paid after years of coverage. Under civil service, the entire amount of salary deductions plus interest would be paid.

Up to now, we have talked about death before retirement. But the odds are nearly 2 to 1 that a man age 25 will live to age 65, so what happens upon his certain death after that age is an important part of the survivor benefit story. The social security widow's benefits are as previously described: a lump-sum death payment not exceeding $240, plus a monthly benefit, not exceeding $60, and commencing no earlier than age 65 if there are no minor children.

Under civil service, a retiring married man must make a positive election to provide an annuity for his surviving widow. Under this election, he takes a small reduction in his own annuity - between 5% and 10% (depending on its amount) if his wife has reached age 60, and slightly more if she is below that age. Her widow's annuity will be one-half of her husband's full rate before any reduction, and it can commence at age 50 instead of age 65. The same type of election is available to married women, whereas, under social security, widower's benefits are payable only in cases of dependency.

The <u>average</u> annuity to widows of retired civil service employees who exercised this election is nearly $10 per month greater than the <u>maximum</u>

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widow's benefit under social security. It is unfortunately true that some civil service widows receive no benefits because the election was not made. But it is beyond question that the married man, after a career in Government service, can provide far better protection for his wife under civil service retirement than is available under social security.

We have examined at some length the relative benefits provided by civil service retirement and social security under various circumstances. Is it possible to summarize these comparisons and draw any general conclusions?

The basic concepts of the two systems are different, and here we find our answer. Under civil service retirement, the Government says to the employee: You must contribute 6% of your salary to help meet the cost of <u>your</u> annuity. You and your survivors may look forward to benefits related to the value of your services to the Government, as measured by your salary and the length of your service. In any event, the return of your contributions with interest is guaranteed, and if you or your survivors qualify for annuity benefits, you may normally expect a considerably greater return.

Social security is an insurance system - "the Federal Old-Age and Survivors Insurance System." It is supported by a scale of increasing taxes on covered employees and their employers, without any guarantee that benefits paid to an individual or his survivors will equal taxes paid by him. Maximum benefits are possible after short periods of qualifying coverage. Family needs weigh heavily in the benefit structure, as is proper in a national social insurance program.

With these basic differences in mind, we can draw the following conclusions:

1. Social security provides larger benefits where the qualifying period of coverage is short - old-age benefits for those now approaching retirement age, and survivor benefits for the widow and children of the employee who dies young. In the latter area particularly, because of the insurance principle, social security has a decided advantage over civil service retirement.

2. For the employee who makes a career of Government service, civil service retirement offers better benefits in practically all areas. It provides disability protection, and optional retirement before age 65. Annuities to widows are on more favorable terms - the uninterrupted payment to the widow when her youngest child reaches age 18, and the commencement of the annuity at age 50 rather than age 65 for the widow without children. The guaranteed return of contributions is of particular importance to single employees. The younger employee, who can look forward to many years of contribution under either system, will receive annuity benefits which are decidedly larger under civil service retirement.

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